

EXECUTIVE SECRETARIAT **ROUTING SLIP**

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI				
2	DDCI				
3	EXDIR				
4	D/ICS				
5	DDI				
6	DDA				
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/OLL				
14	D/PAO				
15	D/PERS				
16	VC/NIC				
17	NIO/ECON	X			
18	D/OGI/DI		X		
19	ES		X		
20					
21					
22					
SUSPENSE		Date			

Remarks

Executive Secretary

5 May 86

Date

3637 (10-81)

25X1

**THE WHITE HOUSE
WASHINGTON**

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CABINET AFFAIRS STAFFING MEMORANDUM

Executive Registry

86- 1546X/1

Date: 5/2/86 **Number:** 317.103 **Due By:** -----

Subject: Economic Policy Council Minutes

April 14, 1986 Meeting

ALL CABINET MEMBERS	Action	FYI		Action	FYI
Vice President	<input type="checkbox"/>	<input type="checkbox"/>	CEA	<input type="checkbox"/>	<input checked="" type="checkbox"/>
State	<input type="checkbox"/>	<input checked="" type="checkbox"/>	CEQ	<input type="checkbox"/>	<input type="checkbox"/>
Treasury	<input type="checkbox"/>	<input checked="" type="checkbox"/>	OSTP	<input type="checkbox"/>	<input type="checkbox"/>
Defense	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Justice	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Interior	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Agriculture	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Poindexter	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Commerce	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Svahn	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Labor	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Chew (For WH Staffing)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
HHS	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
HUD	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Transportation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Energy	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Chief of Staff	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Executive Secretary for:		
<u>CIA</u>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	DPC	<input type="checkbox"/>	<input checked="" type="checkbox"/>
UN	<input type="checkbox"/>	<input type="checkbox"/>	EPC	<input type="checkbox"/>	<input checked="" type="checkbox"/>
USTR	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
EPA	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
GSA	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
NASA	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
OPM	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
SBA	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
VA	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>

REMARKS:

Attached for your information are the minutes of the April 14 Economic Policy Council Meeting.

RETURN TO:

☒ Alfred H. Kingon
Cabinet Secretary
456-2823
(Ground Floor, West Wing)

☐ Don Clarey
☐ Rick Davis
☐ Ed Stucky

Associate Director
Office of Cabinet Affairs
456-2800 (Room 235, OE0B)

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MINUTES
ECONOMIC POLICY COUNCIL

April 14, 1986
1:00 p.m.
Roosevelt Room

Attendees: Messrs. Baker, Lyng, Yeutter, Sprinkel, Darman
Whitehead, Kingon, McAllister, Ball, Brashear,
Danzansky, Driggs, Gould, Gibson, Khedouri,
McMinn, Muris, Smart, Stucky, Wallis, and Woods.

1. Canadian Trade

Ambassador Yeutter explained that the original purpose of the meeting was to consider an Administration position with regards to the Canadian delay in introducing legislation correcting problems in pharmaceutical trade. He noted however that the Senate Finance Committee had indicated on April 11 its probable intent to disapprove authority for the Administration to negotiate on a fast track a free trade arrangement with Canada. He stated that the Canadians have responded by placing the pharmaceutical bill on hold.

Ambassador Yeutter explained that several representatives of the Canadian Government stated that if the Senate Finance Committee rejects the President's request for fast track negotiating authority, the Canadians are not willing to continue negotiations on a slow track. He noted that the Finance Committee will have to vote by April 23.

Ambassador Yeutter explained that several of the Senators expressing opposition to the fast track negotiating authority were concerned with particular issues relating to Canada, including timber, hogs, and potatoes. He noted that Senator Danforth is particularly interested in gaining Administration support for a trade bill.

The Council discussed the importance of the free trade arrangement for the United States. Mr. Wallis pointed out that the ramifications of Senate disapproval would extend beyond economic interests with Canada to also affect defense and security relations. He noted that Senate disapproval would also weaken the President's Economic Summit efforts to strengthen support for expanding free trade worldwide.

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Secretary Baker stated that the tactics the Administration might use to turn around the Senate Finance Committee is a White House decision and should be made by the White House Legislative Strategy Group.

2. Thriffs

Undersecretary Gould stated that on February 27, 1986, the Economic Policy Council approved a series of principles for addressing the problems of the thrift industry. He pointed out that these principles included: strengthening the industry through greater capital requirements and incentives; channeling more funds to the Federal Savings and Loan Insurance Corporation (FSLIC); and expanding the acquisition program for thrifts.

Mr. Gould stated that in developing a specific proposal for channeling funds to the FSLIC, the Working Group balanced several considerations, including: sharing the burden between thrifts and the Federal Home Loan Bank System; avoiding a negative budget effect; providing \$15-25 billion over five years; avoiding a U.S. Government guarantee; and accommodating the FHLBanks' concern about maintaining their credit status.

He stated that the Working Group had developed the following proposal for recapitalizing FSLIC:

- o The FHLBB charters a "FSLIC Financing Facility" (FFF), capitalized with about \$3 billion of the FHLBanks' surplus over six years.
- o The FFF borrows approximately \$10 billion through long-term bonds. It assures payment of these bonds' principal by buying \$2 billion of Treasury zero-coupon bonds.
- o The FFF then invest the \$10 billion of bond proceeds in non-voting capital stock of FSLIC.
- o FSLIC employs some of its assessment income to pay dividends to the FFF, which uses this money to service its bonds.
- o FSLIC would repay the \$3 billion FHLBanks investment, and if FSLIC is in good financial condition, it could pay up to a 6 percent return on the investment.

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Mr. Gould explained that under this proposal it would be possible to phase out the special assessment now imposed on thrifts, which would help gain the support of the thrift industry. He also noted that the FHLBB supports the general thrust of the proposal.

He stated that the proposal possesses some flexibility in the amount of funds raised for FSLIC. He pointed out that the proposal does not require any taxpayer assistance.

Dr. Sprinkel expressed his support for the proposal but questioned whether the FFF investment in FSLIC would require budget authority. He noted that if so, it would be more efficient for the Treasury to borrow the necessary funds and distribute them to FSLIC.

Mr. Muris stated that both the OMB and the CBO would consider the infusion of capital from FFF to FSLIC as borrowing, not equity, and would thus not be counted as offsetting receipts. He explained that if not counted as offsetting receipts, the budget deficit would be increased.

Mr. Gould explained that the Working Group had been operating under the presumption that the FFF investment in FSLIC would be considered equity. He expressed some dismay that if the Working Group were forced to start over, the Administration would lose its influence on the question of how to strengthen FSLIC.

Secretary Baker pointed out that OMB Director Miller had requested that the FFF infusion be equity, and noted that the Working Group had gone beyond the original proposal to make the infusion more equity-like by making it common stock. He stated that if there were any suggestions on how to make the investment more equity-like, the Council would welcome considering them. He suggested that to ensure the FFF investment not increase the deficit, the legislative proposal should specify that the investment be counted as offsetting receipts.

Decision

The Economic Policy Council approved the proposed Working Group plan for recapitalizing FSLIC. The Council agreed that to ensure the FFF investment was considered equity and that the budget deficit was not increased, the legislative proposal should specify that the investment would be counted as offsetting receipts.

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